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Impact of the Recession on Customer Services versus Other Services

In November and December 1990, INPUT interviewed 50 vendors and 96 customers to ascertain the likely impact of a recession on the information services business. (This information is being analyzed in INPUT's report, *U.S. Customer Service Market Analysis, 1990-1995,* which is based on vendor research.)

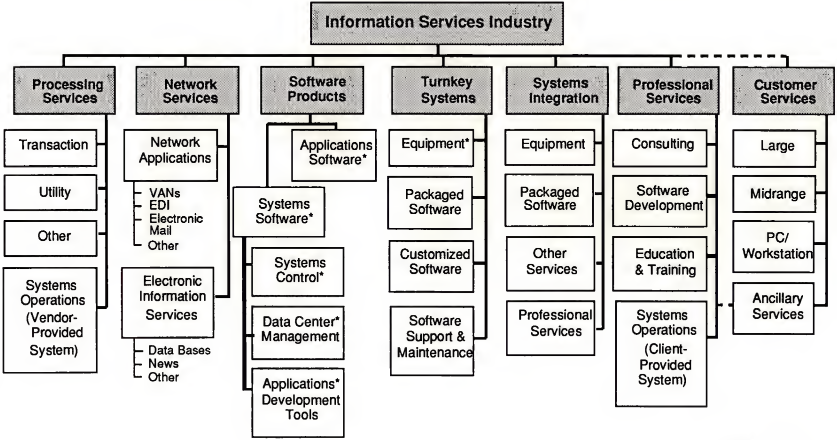
This Research Bulletin, also based on vendor research, shows the similarities and differences of the likely impact on customer services vendors and services vendors offering professional services, processing services, and network services. Exhibit 1 contains an overview of INPUT's information service categories.

Customer service vendors (including IMOs) believe that the economy is in a recession just as strongly as do vendors of information services, but, as illustrated in Exhibit 2, they are not as certain as some other services vendors that the impact of the recession is solely negative. Professional services and network services vendors appear to be suffering more of a negative impact, while a smaller percentage of processing services vendors than customer services vendors report that they are experiencing negative impacts.

The types of negative impact that vendors refer to include delays in obtaining new contracts, cancellations of contracts, and reductions in business with current accounts. It is difficult for users to cut back, cancel, or even delay the use of processing services, such as payroll or operational processing, whereas it is easier to delay the start of or cut back work on noncritical professional service contracts or delay the use of some network services. Customer service business is relatively harder to delay than professional services business, as shown in Exhibit 3.

The reaction to the economic downturn has been broader than the impacts would suggest. Despite the fact that processing vendors have suffered less than other vendors, all those contacted had imposed budgetary reductions or constraints. Personnel cutbacks were most common in customer services, in part because the core customer service business has not been buoyant for some time. Other types of actions that are being taken in customer services to counter the recession include reductions in overtime, hiring freezes, and space consolidation. Across all services, vendors claimed that cost-cutting and control measures would certainly help in view of the downturn, but that they were necessary in any case in order to stay competitive.

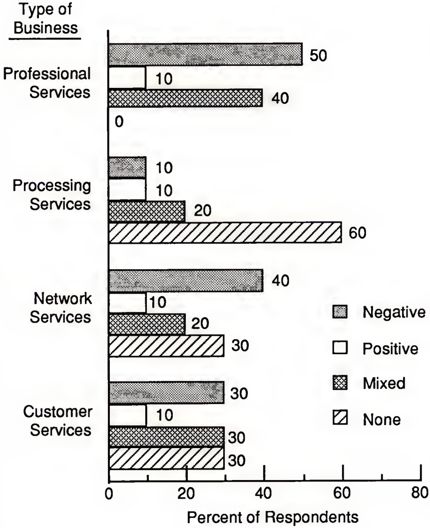
Information Services Industry Structure



Source: INPUT

Exhibit 2

Impact of Recession on Own Business

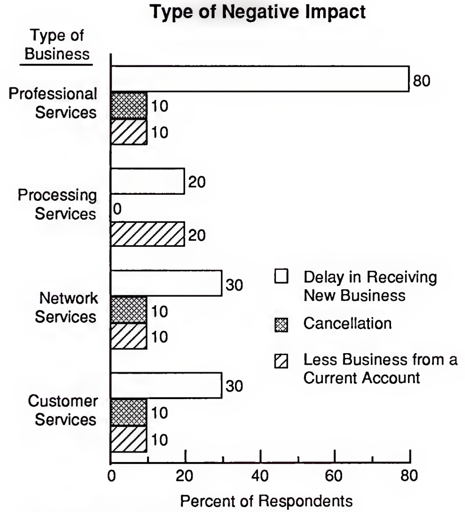


Customer services is seen as being relatively insulated from a recession, as shown in Exhibit 4. Processing comes out first, since 70% of processing vendors feel that it is insulated, but customer service is in second place. Forty percent of customer services vendors feel that it is insulated from a recession, and 10% of professional services vendors mentioned customer services as well. Professional services vendors do not mention professional services in general as being insulated from a recession, but 40% mention outsourcing as a less vulnerable service. This service could include professional services work in support of systems operations—an area that appears to be insulated from a recession.

Of interest to customer service vendors, 30% of the vendors of this service mode noted that work in support of network integration was insulated from a recession. This indicates the mounting interest in providing support to installations where network integration has taken place. There is need for additional support in these situations on an ongoing basis, since the systems are often critical to the user's business. Some customer service vendors have noted the opportunity for business in these areas and feel that they may be more insulated from economic downturns than other areas of business.

Customer service stands out when viewing new products and services as a response to the recession (Exhibit 4). Not only are 30% of vendors planning new products, but another 30% of customer service vendors are considering new products. Processing and network services are much less active in implementing new products, as shown in Exhibit 4. New products are not mentioned in general by any class of vendors as a reaction to the present economic situation, nor are any new business activities being delayed by the economic downturn.

Exhibit 3



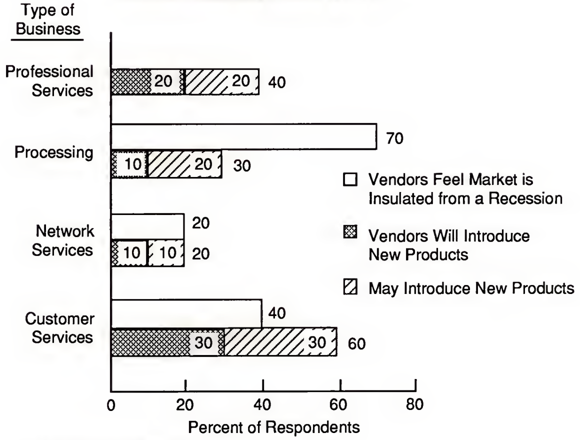
Multiple responses allowed

Vendors also feel that pricing changes are neither encouraged nor discouraged by the economic situation in general, but over 25% percent of all of the services vendors interviewed are planning changes that will amount to increases in most cases. Forty percent of professional services vendors and 10% of both processing and network services vendors plan changes. Forty percent of customer service vendors are planning changes also, and another 10% may do so. Pricing changes that will repackage prices will be made by 20% of customer service vendors in response to the economic situation, and another 20% to 30% are planning changes, though not in reaction to the downturn.

The current economic situation is encouraging some vendors to change selling methods. New methods will be used by only 20% of processing and network services vendors, but 60% of professional services and customer services vendors will do so. Forty percent of customer service and 30% of professional services vendors plan steps to emphasize customer satisfaction or quality of service. The remainder plan to work more closely with customers. Unbundling of service and telemarketing were also mentioned.

Exhibit 4

Vendor Attitudes About Market



Multiple responses allowed

Conclusions

Customer service vendors may be somewhat more insulated from the effects of the recession than most information services vendors:

- Like processing services, there are fewer discretionary dollars involved.
- Customer service organizations have had to deal with low growth and falling margins for some time.

It is much less clear if any type of vendor will be able to make planned price increases a reality in a recessionary marketplace. Discounts from published prices are more likely.

This Research Bulletin is issued as part of INPUT's Customer Service Program.
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About INPUT

INPUT provides planning information, analysis, and recommendations to managers and executives in the information processing industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions.

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